



NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE
November 15, 2006

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CALIFORNIA TREASURER ANGELIDES URGES CALPERS AND CALSTRS TO TAKE TOUGH ACTION AGAINST KB HOME EXECUTIVES

*Angelides Urges Funds to Pursue Legal Action Against
Ex-KB Home CEO Karatz and other Executives
To Recover Damages and Seek to Rescind Lucrative Pay Packages*

SACRAMENTO, CA – California Treasurer Phil Angelides today called on the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) to take tough action against former KB Home chief executive officer Bruce Karatz and other KB Home executives following reports that Karatz backdated stock options grants to inflate his own pay and artificially boost the earnings of other KB Homes executives.

"Options backdating schemes are designed to enrich executives at the expense of the pensioners and hard-working families who in good faith invested their savings in our financial markets," Angelides said. "If these allegations prove true, the actions by KB Home executives represent a dramatic breach of their responsibilities as leaders of a public company. I urge CalPERS and CalSTRS to lend their powerful voices to end this reprehensible practice."

In letters to CalPERS' and CalSTRS' Investment Committees, Angelides urged the funds to aggressively pursue all avenues – including legal actions against KB Homes, Karatz and other executives involved – to recoup any losses the funds have incurred due to improper backdating. Additionally, Angelides said that if the allegations prove true, the funds should seek to bar KB executives, including Karatz, from exercising any yet unexercised stock options, and to recoup previous payments made to those executives, saying the pay packages were awarded "on the presumption that executives were conducting themselves in an ethical manner."

While news reports indicate that Karatz plans to repay \$13 million of his option gain, Angelides said this amount is but a small fraction of his recent earnings from KB stock options – reported to be nearly \$125 million over the last five years, with another \$127 million in grants Karatz has yet to exercise.

In June of this year, Angelides urged CalPERS and CalSTRS to recoup losses the fund may have suffered as a result of improper backdating at UnitedHealth Corporation and other companies, expressing concern that the backdating practice harmed investors and taxpayers.

The legal action Angelides called for today is similar to the approach CalPERS has taken with regard to UnitedHealth's stock-option practices. CalPERS and several other investors filed a lawsuit in July of this year after news reports made public allegations that the company allowed executives, including CEO William McGuire, to back-date options to inflate the value of their options holdings.

In response to the wave of corporate scandals earlier this decade that rocked the financial marketplace and cost investors trillions of dollars, Treasurer Angelides has taken the lead in organizing investors in a national movement for corporate reform. Working with investment and pension fund leaders from across the nation, Angelides has fought to recover losses to pension funds and taxpayers due to fraud and misconduct, to clean up corporate boardrooms, to tie executive pay to performance, and to restore confidence in our financial markets.

A copy of the Treasurer's letters to CalPERS and CalSTRS can be viewed on the Treasurer's website: www.treasurer.ca.gov.

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PHILIP ANGELIDES
Treasurer
State of California

November 15, 2006

Mr. Charles Valdes
Chair, Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Dear Mr. Valdes:

As you know, KB Home's CEO Bruce Karatz was forced to resign his position Sunday, according to news reports, after a company investigation revealed that he had backdated options grants to inflate his own paycheck and artificially boost the earnings of other KB Home executives. This recent action is just the latest in a rash of backdating schemes that have come to light since spring of this year. News reports now indicate that more than 130 companies are now under investigation for improperly dating options grants.

Backdating schemes are designed to enrich executives at the expense of pensioners and hard-working families who in good faith invested their savings in our financial markets. As trustees of over \$215 billion in pension fund dollars, we must do all we can to protect the pensioner and taxpayer assets entrusted to us, and to send a clear signal to the marketplace that wrongful corporate behavior will not be tolerated.

Therefore, I urge CalPERS to aggressively pursue all avenues – including legal actions against KB Home, Karatz and any other KB executives involved – to recoup any losses the pension fund has incurred due to improper option backdating. With nearly 500,000 shares in KB Home valued at over \$23 million, CalPERS has an obligation to ensure that the fund's members and pensioners are not harmed by executives' improper actions, and to lend the fund's powerful voice to the call to end this reprehensible practice.

If in fact Karatz and other KB Home executives had a direct role in improperly dating options grants, as newspapers have reported, their actions represent a dramatic breach of their responsibilities as leaders of a public company.

While news reports indicate that Karatz plans to repay \$13 million of his option gains, this amount is but a small fraction of his recent earnings from KB stock options – reported to be nearly \$125 million over the last five years, with another \$127 million in

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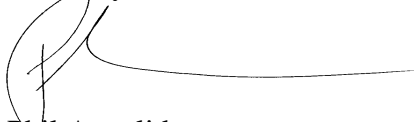
options grants Karatz has yet to exercise. Karatz was awarded this lucrative pay package on the presumption that he was conducting himself, as an executive in this company, in an ethical manner. If in fact these allegations of improper options dating are true, his pay package must be re-examined. At a minimum, if the allegations are borne out, CalPERS should seek to bar Karatz from exercising any unexercised options and to recoup previous payments made to Karatz in an amount that will justly compensate the company and its shareholders for this breach of trust. A similar standard should apply to any executives that are found culpable.

This approach is similar to the actions CalPERS has taken in its legal action against UnitedHealth Corporation and its executives. As you know, I expressed my concern over the harm investors may suffer because of backdating schemes in June of this year, asking the Investment Committee to recoup losses the fund may have suffered as a result of improper backdating at UnitedHealth and other companies. Since that time, allegations of backdating more companies, including KB Homes, have been revealed, indicating that the 130 investigations currently underway may only be the tip of the iceberg.

I urge the Investment Committee to consider any and all appropriate actions to recover pensioner and taxpayer losses at our next meeting. Of course, please feel free to contact me or Chief Deputy Treasurer Ted Eliopoulos at (916) 653-2995.

Thank you for your consideration of this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Phil Angelides', with a long horizontal flourish extending to the right.

Phil Angelides
State Treasurer

cc: Honorable Members, Investment Committee
Fred Buenrostro, Chief Executive Officer
Russell Read, Chief Investment Officer



PHILIP ANGELIDES
Treasurer
State of California

November 15, 2006

Mr. Gary Lynes
Chair, Investment Committee
California State Teachers' Retirement System
7919 Folsom Boulevard
Sacramento, CA 95826

Dear Mr. Lynes:

As you know, KB Home's CEO Bruce Karatz was forced to resign his position Sunday, according to news reports, after a company investigation revealed that he had backdated options grants to inflate his own paycheck and artificially boost the earnings of other KB Home executives. This recent action is just the latest in a rash of backdating schemes that have come to light since spring of this year. News reports now indicate that more than 130 companies are now under investigation for improperly dating options grants.

Backdating schemes are designed to enrich executives at the expense of pensioners and hard-working families who in good faith invested their savings in our financial markets. As trustees of over \$140 billion in pension fund dollars, we must do all we can to protect the pensioner and taxpayer assets entrusted to us, and to send a clear signal to the marketplace that wrongful corporate behavior will not be tolerated.

Therefore, I urge CalSTRS to aggressively pursue all avenues – including legal actions against KB Home, Karatz and any other KB executives involved – to recoup any losses the pension fund has incurred due to improper option backdating. With over 130,000 shares in KB Home valued at over \$6 million, CalSTRS has an obligation to ensure that the fund's members and pensioners are not harmed by executives' improper actions, and to lend the fund's powerful voice to the call to end this reprehensible practice.

If in fact Karatz and other KB Home executives had a direct role in improperly dating options grants, as newspapers have reported, their actions represent a dramatic breach of their responsibilities as leaders of a public company.

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This approach is similar to the actions CalPERS has taken in its legal action against UnitedHealth Corporation and its executives. As you know, I expressed my concern over the harm investors may suffer because of backdating schemes in April of this year, asking the Investment Committee to recoup losses the fund may have suffered as a result of improper backdating at UnitedHealth and other companies. Since that time, allegations of backdating by more companies, including KB Homes, have been revealed, indicating that the 130 investigations currently underway may only be the tip of the iceberg.

I urge the Investment Committee to consider any and all appropriate actions to recover pensioner and taxpayer losses at our next meeting. Of course, please feel free to contact me or Deputy Treasurer Dennis Trujillo at (916) 653-2995.

Thank you for your consideration of this matter.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Phil Angelides', with a long horizontal flourish extending to the right.

Phil Angelides
State Treasurer

cc: Honorable Members, Investment Committee
Jack Ehnes, Chief Executive Officer
Christopher Ailman, Chief Investment Officer